

**U.S. House of Representatives
Energy & Commerce Committee
Subcommittee on Oversight and Investigations**

September 7, 2006

**Robert A. Malone
Chairman and President, BP America Inc.**

Written Testimony

My name is Bob Malone and I am Chairman and President of BP America Inc. BP America is the U.S. holding company for all subsidiary companies operating in the United States. BP America, through its subsidiaries employs more than 36,000 people and produces 666,000 barrels of crude oil and 2.7 billion cubic feet of natural gas per day. We operate five refineries that process nearly 1.5 million barrels a day of crude oil, and a system of pipelines and terminals throughout the United States that supply over 70 million gallons per day of gasoline and distillate fuels to customers in 35 states.

BP Exploration Alaska (BPXA) is the operator of the largest oil field in North America – Prudhoe Bay on Alaska's North Slope. Our charge is to operate this field in a safe, efficient and environmentally responsible way for the benefit of the State of Alaska, our business partners, our customers, our employees and our shareholders. The public's faith in BP has been tested recently by corrosion discovered in the pipeline oil transit system that conveys processed crude oil from the North Slope gathering centers to Alaska's Trans Alaska Pipeline System (TAPS).

While we would never wish to lose the confidence of the American public, we have fallen short of the high standards we hold for ourselves, and the expectations that others have for us. I commit that BP America will work closely with the State of Alaska, our employees, our regulators and Congress to take the necessary steps to ensure that you can have confidence in BP.

Steve Marshall, President of BP Exploration, Alaska has submitted comments regarding the operational incident at Prudhoe Bay. In the pages that follow, I will discuss several other operational challenges BP has experienced over the last 18 months and address many of the questions members of the Committee, regulators and others have raised. Most importantly, I will outline the steps that BP has taken or is committed to undertaking to address these challenges and enhance the public's confidence in our company.

Employee Concerns

As soon as I was named head of BP America in July 2006, I took a tour – to find out what our people were saying in the field. I visited facilities and offices across America from Alaska to Texas with many stops in between. I can tell you that the solution to many issues that BP America faces rests right at home – with those who are our BP employees.

I made it clear that they had three obligations –

- Workers must feel that operations are safe and the integrity of our infrastructure is sound at our facilities
- If they don't feel safe or if process integrity is in question – they have the authority to shut operations down
- Workers must feel comfortable raising concerns

I know that BP has processes in place to address employee concerns. People can raise concerns through line management, they can raise concerns through our safety committees, and they can call in to a world wide anonymous hot line. Alaska has had its own hotline for worker concerns. We believe, in fact, that most of the concerns have been raised through one or more of these systems. The problem has not been in workers raising concerns – sometimes it's been our responsiveness.

In recognizing that the current situation may not provide complete assurance – I have created a new position of Ombudsman, reporting directly to me.

This new person will provide an independent team to assess and to bring to resolution any safety-related operational concerns raised to his office. I expect this individual will call them as he sees them. This is critical, as workers are going to speak out. We encourage it.

The new ombudsman will initiate a full review of all the worker allegations that have been raised on the North Slope since the acquisition of ARCO in 2000. I have asked that these concerns be reviewed to determine if the problems have been addressed and rectified to BP's standard, with appropriate feedback to the worker.

BP America is committed to finding out about and acting on operational and other issues. This is why we have created the new Ombudsman role to help facilitate this information gathering and exchange.

Supply/Price and Consumer Impacts

Upon the August 6, 2006 announcement that BPXA intended to shut down the Prudhoe Bay field, concerns were expressed about the impact this decision would have on crude supplies and prices to the West Coast. Early estimates that the entire production from Prudhoe Bay of approximately 400,000 barrels/day would be shut-in proved wrong. Extensive ultrasonic testing of the western oil transit lines provided BPXA with sufficient data to determine that production in the Western Operating Area could continue in a safe and environmentally responsible manner. The loss of crude shipments to the Trans Alaska Pipeline was thus limited to roughly 200,000 barrels per day.

In light of this supply gap, many policymakers voiced concerns that West Coast refiners would be unable to find alternative sources of crude to keep their refineries operating and the gasoline market supplied. At the time of the incident, West Coast inventory levels for both crude and products were seasonally high, near record levels in some cases.

On news of the curtailment in production, BP and others in the Industry made moves to source incremental barrels from alternative sources including West Africa (WAF), the Middle East and South America (see Exhibit 1). BP's activity was focused largely on

meeting the crude oil and refined product demands of our refineries and customers. To this end, BP has secured an incremental 3.5 Million barrels of crude oil for delivery to the West Coast in September and October.

The company has also agreed to take steps that will ensure the continued flow of oil to both Flint Hills Resources and Petro Star refineries in Alaska which depend on North Slope oil for their operations.

How have these incremental supplies impacted the price structure of the West Coast markets? As shown in Exhibits 2 and 3 the market reaction was relatively benign over the period due to the availability of alternative crude and product supplies. The few impacts that have been seen in the product markets were largely the result of local refinery issues rather than disruption in Alaska crude deliveries (Exhibit 4). Nevertheless, in the two weeks after the incident both crude and product prices were lower than the levels of August 6.

A few people have alleged that BP engineered the shutdown of Prudhoe Bay as a way to manipulate prices. I am here to assure you that nothing could be further from the truth. BPXA took the extraordinary step to shut down production because we saw unexpectedly severe corrosion that couldn't be explained and which caused us to question the condition of other transit lines serving the oil field. We were simply not willing to risk worker safety or a major oil spill. Further, BP has gone to great lengths to

not only guarantee supplies to Alaska refiners but also secure incremental crude for delivery to the West Coast.

BP's commitment to ensuring product supply to the market and its customers is not a new phenomenon. Immediately following Hurricanes Katrina and Rita, BP also took extraordinary steps to ensure product supplies to the United States. Some of these activities are listed below:

- Importing more than 29.5 Million barrels of gasoline, diesel and jet fuel for delivery into markets in the Northeast, Florida and Gulf Coast through October of 2005.
- Transporting additional supplies to Florida, where this fuel can then be used in supply-short areas typically served by the Colonial Pipeline.
- Reversing the pipeline on the Texas City marine dock to accept vessel shipments and deliver product into Colonial pipeline.
- Extending supplies by utilizing the adjustments in environmental regulations (RVP and sulfur) that will help increase the overall supply of gasoline and aid distribution flexibility. This brought millions of extra barrels into the Midwest, Northeast and Southeast markets.
- Reaching an agreement with DoE to draw, on an exchange basis, up to 2 million barrels of sweet crude from the Strategic Petroleum Reserve for use in its Midwestern refineries. BP has drawn down 200,000 barrels of this loan amount. Additionally in an SPR auction held the week of September 12, we bid for and won 2.7 million barrels of sweet crude.

- o Obtaining a Jones Act Waiver to enable a foreign flag vessel to shuttle crude oil from a platform to onshore facilities. This action enables an additional 50k BOPD and 200 MSCF of gas per day to be delivered to our US system.

BP America will continue to play an active role in securing the crude and product supplies necessary to meet our refinery and customer demands. The market has shown great resiliency in its ability to quickly respond to supply disruptions and thus minimize impacts to the consumer. BP America is confident that market dynamics will successfully meet West Coast needs until full production is restored in Prudhoe Bay.

Other Matters

Over the last 18 months, BP America has also experienced several other incidents about which I would like to briefly comment.

In Texas City, a March 2005 explosion at one of our facilities was the greatest tragedy ever experienced by the BP family. The harm it caused and the lessons learned from it will never be forgotten. In the aftermath of this tragedy we made and continue to make making significant changes in our approach to process safety and in the way we operate and monitor operations at Texas City and our other US refining facilities. We are committed to attaining the highest levels of safety, reliability and environmental performance.

BP has publicly accepted responsibility for the March 23rd explosion and for the management system failures and employee mistakes which contributed to or caused it.

Immediately following the incident, BP Products North America (BPPNA), the subsidiary that owns the US refining assets, promised to fully investigate the explosion, make public the findings of its investigation and take action to prevent a recurrence. The company also promised its full cooperation to government agencies investigating the incident and said it would assist workers and families harmed by the company's mistakes.

BP has fully cooperated with the U.S. Chemical Safety and Hazard Investigation Board (CSB), the U.S. Environmental Protection Agency and the Texas Commission on Environmental Quality regarding their investigations of the Texas City explosion.

On the recommendation of the CSB, BP has voluntarily appointed an independent panel to assess and make recommendations for improvement of process safety management and safety culture at the company's five U.S. refineries. Former U.S. Secretary of State James A. Baker, III is chairman of the panel. The panel has visited each of BPPNA's five US refineries in Texas City, TX; Carson, CA and Whiting, IN, Oregon (Toledo), OH and Cherry Point, WA. BPPNA looks forward to receiving the Panel's final report and improvement recommendations later this year.

BP has put a new management team in place at Texas City, simplified the organization, improved communication, clarified roles and responsibilities and taken steps to update and verify compliance with procedures.

BP expects to invest an estimated additional \$1 billion to improve and maintain the Texas City site over the next five years.

BP operations and maintenance personnel have reviewed and updated operating and maintenance procedures and received training on process safety management, hazard recognition, process control, process trouble shooting and control of work. Site employees have completed over 300,000 man hours of operational and process safety related training since March 23, 2005.

The company has set aside \$1.2 billion to compensate victims of the explosion and has worked to resolve claims arising from the incident without the need for lengthy litigation. Settlements have been achieved with nearly all family members of every worker who died. The company has also agreed to compensation with more than 500 injured workers.

The Thunder Horse platform is the largest semi-submersible oil production platform in the world, at 130,000 tons displacement, and is designed to process 250,000 barrels of oil and 200 million cubic feet of natural gas per day. The Thunder Horse field is located in 6000 ft. of water and involves extremely challenging high pressure and high temperature hydrocarbon reservoirs. Much of the technology being utilized on the project is industry-first involving new metallurgy, new engineering designs and 'serial number one' equipment. Thunder Horse is operated by BP, with a 75 percent working interest. ExxonMobil owns the remaining 25 percent interest.

In April 2005, the platform was towed to its location in Mississippi Canyon Block 778 in the deepwater Gulf of Mexico, 150 miles southeast of New Orleans.

Upon the approach of Hurricane Dennis in July 2005, all personnel evacuated the Thunder Horse platform in conformance with standard BP safety procedures. Following passage of the storm, the Coast Guard Marine Safety Unit Morgan City was notified that the Thunder Horse platform was listing.

A BP investigation was begun to determine the cause of the stability imbalance that saw the Thunder Horse platform list to port at an estimated 20 degrees. The U.S. Coast Guard and the Department of the Interior's Minerals Management Service also opened a joint investigation to determine the cause of the listing and their investigation is continuing. BP is cooperating fully with this investigation.

On August 1, 2006, the Thunder Horse platform completed major repairs and was declared ready for the introduction of hydrocarbons. This massive undertaking was completed on schedule and safely, with zero days away from work cases.

Some of BP's U.S. Trading operations have come under scrutiny by federal regulators. BP is cooperating with the Commodity Futures Trading Commission and the Department of Justice in their investigations by providing responsive documents, data and witness testimony.

BP has initiated a review by independent external auditors of the compliance systems in its US trading business. The auditors will examine the design of the trading organization, delegations of authority, standards and guidelines, resources and the effectiveness of control and compliance. The results of the review will be shared with relevant US regulatory authorities and the auditors' recommendations will be acted upon by BP.

Some policymakers and regulators have begun to question whether these operational problems at BP are symptoms of a systemic problem. Clearly, BP has had its share of issues from which we've taken important learnings. I believe BP is, overall, a well-managed company with a solid long-term record. We recognize that there has been a series of troubling problems that are unacceptable to us and contrary to our values. We want to understand why they have occurred and do whatever it takes to set them right.

I don't believe in bad luck. We need to understand these issues and then translate the lessons we learn across all of our operations.

Conclusion

For many, the shine has come off of BP over the last year as we have stumbled operationally. Some have questioned our environmental credentials while others have accused BP of profiteering at the expense of employee safety. BP holds itself to a higher standard and consequently expects the scrutiny that comes when we fall. Part of

my job as Chairman and President of BP America is to ensure that the standards we have set are met. My commitment is to make it happen.

In response to the specific challenges that we have faced in the US, BP has announced several specific actions that it will be taking. These include:

- US refining – a major increase in expenditure on refining maintenance, turnarounds, inspections and staff training and the upgrade of our process safety management system.
- Alaska – major additional investment in pipeline integrity.
- Trading – a detailed review by independent external auditors of the compliance system in the US trading business.
- Organization – the creation of a new outside advisory board to assist and advise BP America Inc.

As this critical work unfolds, BP won't lose sight of the opportunities to create a different kind of company. We will continue to invest in emerging technologies like hydrogen, wind, solar and biofuels. Because it is only in doing so that BP can aspire to be an energy company for the 21st century. We will also continue our work on important policy issues of the day such as climate change and offer our expertise and ideas as options are formulated.

I was sent to the US by our Group CEO, John Browne, with some advice and a set of principles that will guide me and our work in the US. He says the real measure of a great company is not the absence of challenges but how they are dealt with.

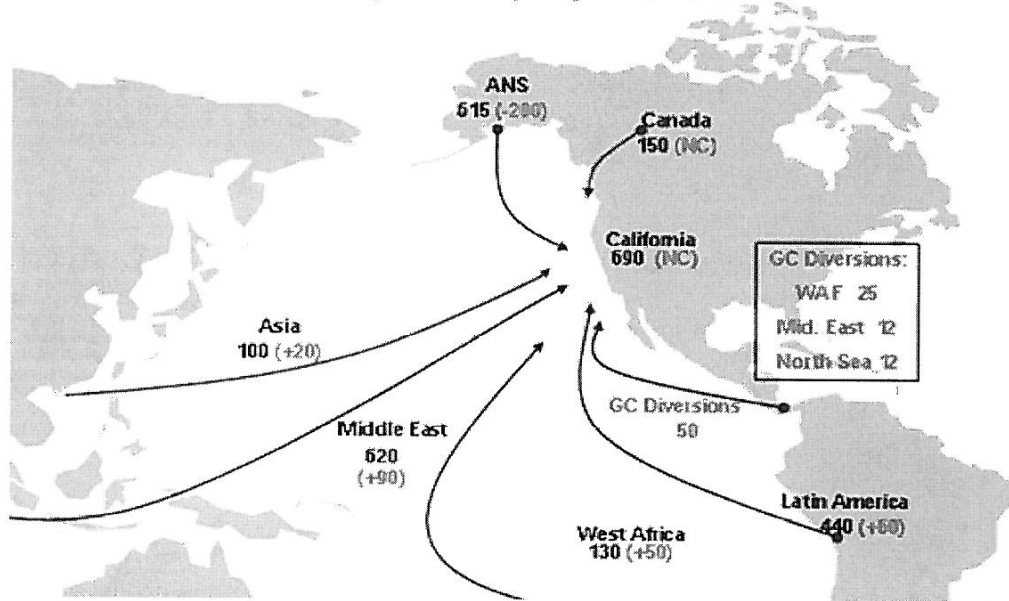
I commit to members of Congress that I have been given the authority, the resources and the people to assure you that BP America will overcome and ultimately be strengthened by this challenge.

EXHIBIT 1

Estimated West Coast Crude Oil Balance
(Sep-Oct 2006) in MBPD

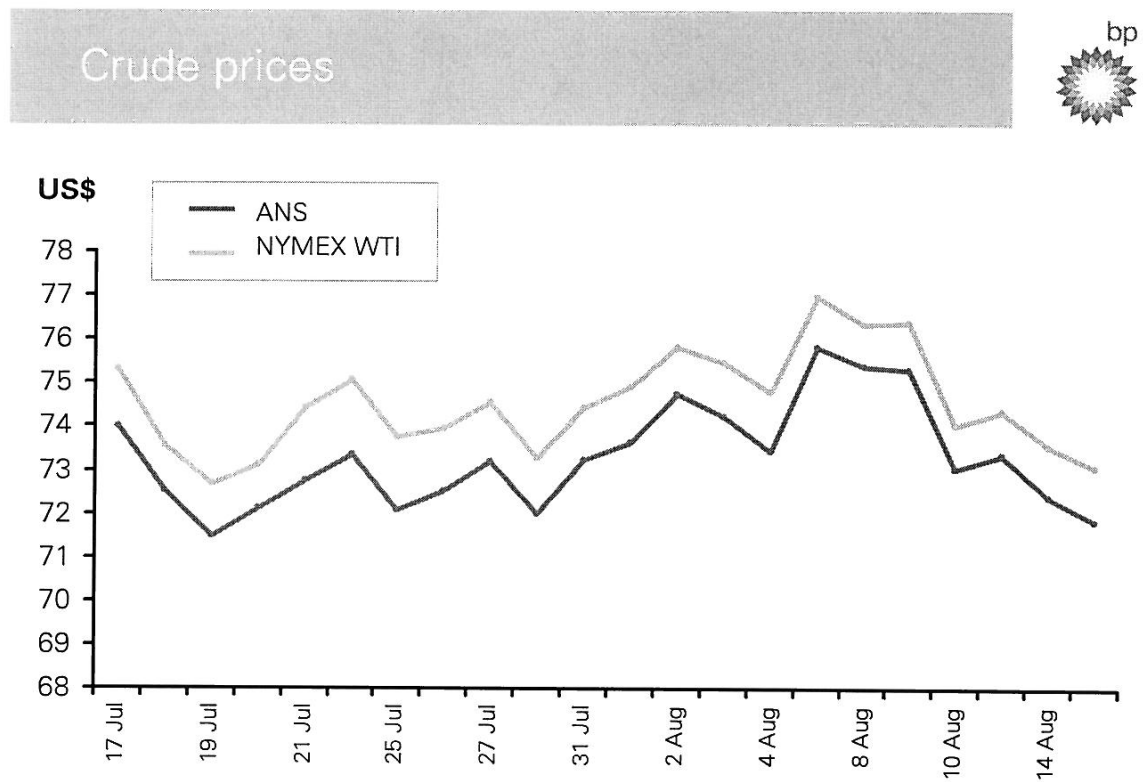


Total & Preexisting Flows in Blue, Changes & New Flows in Red



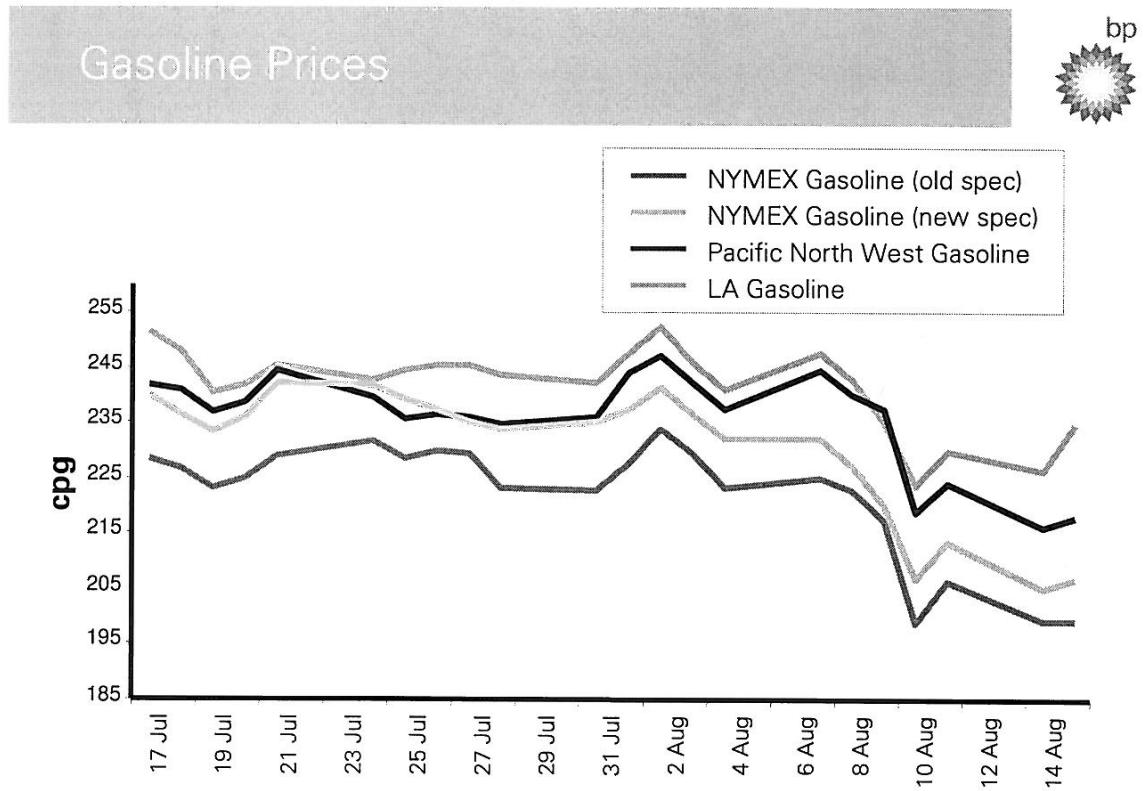
Source: BP Internal Analysis

EXHIBIT 2



Source: OPIS

EXHIBIT 3



Source: OPIS

Exhibit 4

West Coast Basis

